

AUTHOR OF THE NEW YORK TIMES BESTSELLER
— *BANKER TO THE POOR* —

MUHAMMAD YUNUS



— BUILDING — SOCIAL BUSINESS

The New Kind of Capitalism that Serves
Humanity's Most Pressing Needs

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MUHAMMAD YUNUS

with Karl Weber



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Why Social Business?

A social business is a new kind of business. It's quite distinct from either a traditional profit-maximizing business (which describes practically all private companies in the world today) or a not-for-profit organization (which relies on charitable or philanthropic donations). It's also quite distinct from some other frequently used terms, such as "social enterprise," "social entrepreneurship," or "socially responsible business," which generally describe varieties of profit-maximizing companies.

A social business is outside the profit-seeking world. Its goal is to solve a social problem by using business methods, including the creation and sale of products or services. Grameen Danone, for example, is working to solve the problem of malnutrition by selling affordable yogurt fortified with micronutrients. Grameen Veolia Water addresses the problem of arsenic-contaminated drinking water by selling pure water at a price the poor can afford. BASF Grameen will reduce mosquito-borne diseases by producing and marketing treated mosquito nets. There are many other examples—some already in operation, others in the making.

There are two kinds of social business. One is a non-loss, non-dividend company devoted to solving a social problem and owned by investors who reinvest all profits in expanding and improving the business. The examples mentioned above fit into this category. We call this a Type I social business.

The second kind is a profit-making company owned by poor people, either directly or through a trust that is dedicated to a predefined social cause. We call this a Type II social business. Since profits that flow to poor people are alleviating poverty, such a business is by definition helping to solve a social problem. Grameen Bank, which is owned by the poor people who are its depositors and customers, is an example of this kind of social business. And as I'll explain later in this book, the Otto Grameen textile factory, currently in the planning stages, will be a second example. It will be owned by Otto Grameen Trust, which will use the proceeds to benefit the people of the community where the factory is located.

Unlike a non-profit organization, a social business has investors and owners. However, in a Type I social business, the investors and owners don't earn a profit, a dividend, or any other form of financial benefit. The investors in a social business can take back their original investment amount over a period of time they define. It could be a very short period, such as one or two years, or a very long period, as much as fifty years or more. But any increase in the money going to investors beyond the original investment disqualifies the business from being a social business.

This even applies to an adjustment for inflation. In social business, a dollar is a dollar is a dollar. If you invest a thousand dollars in a social business, you'll get back a thousand dollars—not a penny more. We are strict about this because we want to make it very clear that the notion of personal financial benefit has no place in social business.

Because social business is a new idea, I've devoted a lot of time and energy to defining it precisely and figuring out ways to communicate its nature clearly and compellingly to the general public. An important ally in this effort has been Hans Reitz, director of the Grameen Creative Lab (GCL) in Wiesbaden, Germany. Reitz helped me formulate the Seven Principles of social business, which do a particularly good job of presenting the key characteristics of a Type I social business:

1. The business objective is to overcome poverty, or one or more problems (such as education, health, technology access, and environment) that threaten people and society—not to maximize profit.
2. The company will attain financial and economic sustainability.
3. Investors get back only their investment amount. No dividend is given beyond the return of the original investment.
4. When the investment amount is paid back, profit stays with the company for expansion and improvement.
5. The company will be environmentally conscious.
6. The workforce gets market wage with better-than-standard working conditions.
7. Do it with joy!!!

The last of the Seven Principles was Reitz's suggestion, and I must say, I like it. Caught up in the aggressive environment of conventional business, we forgot that business can have anything to do with joy. Social business is all about joy. Once you get involved with it you continue to discover the unlimited joy in doing it.

The Seven Principles are the core of social business. Keep them in mind as you read the rest of this book. You'll notice these principles at work when we describe specific social businesses that are already in operation as well as ideas for new social businesses that have yet to be launched. When companies and entrepreneurs meet with us to learn about the social business concept and explore ways to get involved in this movement, we share the Seven Principles with them. They serve as a touchstone and a constant reminder of the values that are at the heart of the social business idea.

What Social Business Is—and Is Not

Terms such as “social enterprise,” “social entrepreneurship,” and many others are frequently used in literature devoted to efforts to address

problems such as poverty. Although these terms are used in varying ways by different writers, they are generally used to refer to subconcepts within either the profit-making world or the traditional world of non-profit organizations. Thus, they are *not* the same as what I call social business.

“Social entrepreneurship” relates to a person. It describes an initiative of social consequences created by an entrepreneur with a social vision. This initiative may be a non-economic initiative, a charity initiative, or a business initiative with or without personal profit. Some social entrepreneurs house their projects within traditional non-governmental organizations (NGOs), while others are involved in for-profit activities. In contrast with social entrepreneurship, social business is a very specific type of business—a non-loss, non-dividend company with a social objective. A social business may pursue goals similar to those sought by some social entrepreneurs, but the specific business structure of social business makes it distinctive and unique.

Some organizations that promote the concept of social entrepreneurship, such as the educational foundation Ashoka, list my work and that of Grameen Bank under this heading. I don’t object, and Ashoka has done a good job of connecting people around the world with the Grameen story and the concept of microcredit. But it would be a mistake to lump together my work with that of all the other social entrepreneurs, or to assume that “social entrepreneurship” and “social business” are simply two names for the same thing.

Some people think that a social business is a kind of non-profit organization. This is not correct. Note some of the characteristics that distinguish a social business from the typical forms of non-profit organizations.

A foundation, for example, is a charitable organization created to disburse funds from one or more donors who seek to create social benefits through their giving. A foundation is not a social business: It is not financially self-sustaining, it normally does not generate any income through business activities, and it does not have an “owner” the

way a social business does. (Under the laws of most countries, foundations and other non-profits are not owned but rather governed by boards of directors under guidelines established by the state.)

However, a foundation could *own* a social business. In fact, I think it could be an excellent use of foundation monies to establish social businesses within the organization's sphere of interest. When a foundation gives a grant to a traditional NGO, the money is spent to establish or support charitable programs, and hopefully it provides some benefits to the community. But in any case, the money is soon spent, and in most cases the NGO is soon applying for another grant to continue its work.

By contrast, if a foundation were to provide investment money with which to launch a social business, the business could create social benefits while generating the income to sustain itself. Over time it would repay the original investment, which means the foundation would get its money back and be able to use it for some other worthy purpose. Meanwhile, the social business would chug along, doing good in the world and, if it is well run, expanding and spreading its influence in ever-widening circles throughout the society.

As I'll explain later, there are legal and tax rules in some countries, including the United States, that make it complicated for a foundation to invest in a business. However, these complications can be overcome. I'd like to see foundations using some of their funds to establish social businesses in their areas of interest: health, education, and sustainable agriculture. I hope some of today's leading foundations are considering such possibilities.

In a similar way, a traditional NGO, which is a non-profit, charitable organization, could also own a social business. It would need to be separated from the NGO for legal, tax, and accounting purposes. But as long as the social business shares the same social objectives as the NGO, it seems to me that such an investment would be a wise and potentially powerful tool for pursuing the NGO's charitable goals.

NGOs do a lot of good work in the world. But the charitable model has some inherent weaknesses, which led me to create the concept of social business as an alternative.

Relying on charitable donations is not a sustainable way of running an organization. It forces NGO leaders to spend a lot of time, energy, and money on fund-raising efforts. Even when these are successful, most NGOs are perennially strapped for cash and unable to sustain, let alone expand, their most effective programs. By contrast, a social business is designed to be sustainable. This allows its owners to focus not on asking for donations, but on increasing the benefits they can deliver to the poor or to others in society. The power of the social business to endlessly recycle money gives it potentially far greater impact than even the best-run charity.

Furthermore, social business treats its beneficiaries with greater personal dignity and autonomy than charity. Even well-meaning, well-designed charity programs have the inevitable effect of taking away the initiative of those who receive the benefits. Poor people who become dependent on charity do not feel encouraged to stand on their own feet.

By contrast, people who pay a fair price for the goods and services they receive are taking a giant step toward self-reliance. Rather than passively accepting gifts, they are actively participating in the economic system, becoming players in their own right in our free-market economy. This is enormously empowering and leads much more directly to genuine, long-term solutions to such problems as poverty, inequality, and oppression.

Of course, not all charity should be replaced by social business. Sometimes simply helping people in desperate need is essential—for example, when a natural disaster such as the tsunami of 2004 or the terrible earthquake that devastated Haiti in 2010 destroys infrastructure, makes people homeless, and creates a huge need for food, medicine, and clothing. Families within a few days of starvation can't wait to launch businesses to support themselves—they need food, and they

need it quickly. Charity is the only immediate response in such cases. But soon the emergency situation gives way to a phase when social business interventions can be very appropriate and immensely helpful. That's why we have created a Social Business Fund for Haiti to create a series of social businesses as longterm, sustainable solutions for the people of Haiti. Both charity and social businesses are needed, but we must understand how, and to what extent, each can contribute to reducing the misery of the people.

There are also some categories of people who unfortunately must rely on charity, because it is virtually impossible for them to support themselves. I'm thinking of people who suffer from extreme physical or mental disabilities, as well as the very old and the very young. As a society, we simply owe these people our help, and it would be cruel to insist that they support themselves. So there is room in our world for charity, just as there is room for social business.

However, I would point out that the potential sphere for social business, within which poor people can become self-sufficient, is greater than many people assume. I've mentioned the program by which Grameen Bank makes it possible for beggars to transform themselves into small business owners through tiny loans. This program has shown that even the poorest of the poor—people with no obvious skills or resources—can become self-supporting when the tools they need are made available.

Programs run by other organizations have worked similar “miracles” with other categories of human beings who are sometimes dismissed as hopeless: drug addicts, the physically disabled, the mentally ill. Let's not be quick to assume that people can be helped only by handouts. Instead, let's try to use our creativity to unlock the hidden potential that almost everyone has been given by God.

Another type of organization that might be confused with a social business is a cooperative.

A cooperative is owned by its members. It is run for profit to benefit the member-shareholders. When the cooperative movement was

first created by socialists such as Robert Owen in the early nineteenth century, it had clear social objectives: to empower the poor, to encourage self-sufficiency, and to promote economic development. Today, some co-ops still create social benefits. For example, there are housing co-ops that make affordable homes available to working-class people, food co-ops that bring healthy nutrition within the reach of city dwellers, and banking co-ops that provide financial services to consumers who might otherwise be underserved.

However, some co-ops are run very much like ordinary profit-maximizing companies. They simply bring together collections of people or companies—farmers raising a particular crop, for example—and create a business structure within which they operate so as to increase their personal profits. There's nothing wrong with this. But it's not a social business.

Is it possible for a co-op to be a social business? Yes, if the members who own the co-op are poor people. In that case, any profits generated by the co-op would go to supporting the poor and helping them escape from poverty—which, by definition, is a socially beneficial activity. An example is the Self-Employed Women's Organisation (SEWA), a trade union that helps self-employed Indian women pursue the goals of "full employment": work security, income security, food security, health-care, child care, and shelter. Organized as a trade union for home textile workers in 1972, SEWA now has over 900,000 members throughout India. These members select their own leaders and effectively run the organization for the benefit of the rank-and-file.

Finally, let me mention one more term that I am sometimes asked about by people who are wondering what social business is. That term is "social marketing." It's a concept that surfaced among sociologists in the 1970s to describe efforts to change human behavior in a socially beneficial way by using tools and techniques drawn from business marketing. An example might be the antismoking campaigns that many governments and NGOs have developed using television commercials, statements from celebrities, and magazine advertisements to

carry the message. Despite the similarity in name, social marketing of this kind has really nothing to do with my concept of social business.

Social Business and Corporate Social Responsibility

Corporate social responsibility (CSR) is another term that sometimes gets confused with social business. CSR often designates a charity fund set aside by a profit-maximizing company to do some good in the local community. For example, the CSR department of a company might donate money to a hospital or school, provide scholarships for a few poor children, or sponsor a cleanup day at the local beach or park. CSR programs are mostly used to build a company's image, to promote the idea that the company is a "good neighbor" or a "good citizen." There's nothing wrong with CSR, but it has no real relation to social business.

By contrast, a social business is directly devoted to changing the economic and social situation of the poor or to creating some other social improvement in the world. A profit-maximizing company that practices CSR may devote 95 percent of its resources to producing profits and 5 percent (or less) to making the world a better place. A social business devotes 100 percent of its resources to making the world a better place.

The CSR concept may also refer to certain rules of good citizenship that some enlightened business leaders try to live by. Not every business will be, or should be, a social business. But even traditional profit-maximizing businesses should follow some basic principles of responsibility.

The first responsibility principle that every business leader should follow is to make sure the business does not imperil anybody's life on this planet. I'd like to see every business manager take a personal vow to not make our world a riskier place than it would be without the business in it. This means operating the business in a safe manner—for example, following procedures to avoid the risk of injuries to workers.

It means making products and services that are safe to use. And it means taking steps to avoid polluting the environment or contributing to global warming. It seems to me that a company that considers itself to be devoted to the principles of CSR should practice at least these minimal steps.

The second responsibility principle goes a bit further. It states that the business will contribute to making the planet safer than it would have been without the business. Under this principle, it's not enough merely to refrain from polluting—it's also necessary to help clean up the atmosphere, the seas, and the ground we walk on, leaving them in better shape than we found them. It's not enough simply to produce goods that don't harm the customers—it's also necessary to create products that make life easier, safer, and more healthful for those who use them.

And the third responsibility principle is that the business should be conducted within the framework of social and political responsibilities established by the state and global authorities. Of course, this means obeying laws and regulations regarding safety, environmental responsibility, financial integrity, and so on. But it also means actively contributing to business efforts to support the well-being of society on the local, national, and global levels. Companies that believe in CSR should strive to be good corporate citizens, helping to make the world a better place through their policies, procedures, and practices.

Based on principles like these, we can design businesses where there is no conflict between social and economic objectives. "Social" means in this context that the business serves to benefit a broad group of people rather than being focused purely on the shareholders' monetary gain. There is no reason why we cannot design such businesses—this kind of social undertaking makes perfect economic sense. But again, it is not the same as a social business as I've defined it.

As an example, consider the company The Sun Shines for All. This for-profit business, founded by the social entrepreneur Fabio Rosa, is dedicated to providing solar electricity to rural Brazilians. Rosa stud-

ied villagers in the southernmost state of Brazil, Rio Grande do Sul, where few people are connected to the regional power grid. He found that almost 70 percent of the families spent at least \$11 per month on energy sources such as kerosene, candles, batteries, and liquid petroleum gas. This is the same amount of money they could instead be spending to rent a basic home solar electric system, including wiring, lights, and outlets for appliances. Such a system would be environmentally sustainable, more healthful, and more versatile.

Rosa's company is now installing this kind of solar energy system in villages throughout southern Brazil. He hopes to eventually reach over three-quarters of a million homes that currently have no electricity. Clearly this is a social benefit to the poor people of Brazil. But *The Sun Shines for All* is not a social business. The business plan calls for an internal rate of return between 29 and 30 percent—a figure Rosa calculates is necessary to attract profit-seeking foreign investors.

Profit-seeking companies with a strong CSR commitment try to make their pursuit of profit consistent with social considerations. However, their commitment to making a profit inevitably limits their contributions to social causes. Under the present economic framework that defines the profit-maximizing company, they have to design the company to pursue profit first and then add the social features—provided the social features don't interfere with maximizing profit.

It's a tricky balancing act. For example, what will happen if one day the economic conditions in Brazil force Rosa to choose between a high rate of profit for his outside investors and affordable rental fees for his rural electricity customers? Because Rosa's company is organized as a traditional for-profit business, it's possible that service to the community would have to suffer to keep investors satisfied. This is a choice a social business doesn't have to make.

By contrast, a social business is designed exclusively to deliver social benefits. There is no thought of creating profit for any investor. As a result, it becomes very powerful, and its attention to the social cause is totally undivided.

Is social business better than normal business? It depends on what you consider better or worse. If you want to make money, then a profit-maximizing company is of course better. If you want to solve people's problems, social business is the way forward. Profit-making companies cannot do this job—or not nearly as well.

Profit and Social Business

Some people ask, why exclude the idea of *combining* the power of the profit principle with the goal of social benefit—or “doing well by doing good,” as it is sometimes phrased? If the only aim is to eradicate poverty, for instance, should we not be pragmatic about how to get there? This might also include being pragmatic about the issue of profit. Some people might argue that a profit-making organization can more successfully fight poverty. The prospect of making a profit might allow them to attract more capital, to expand their model faster, and hence to touch more lives, more quickly. This is the notion of the “double bottom line” or “triple bottom line” that some well-intentioned businesspeople talk about.

I am not opposed to making profit. Even social businesses are allowed to earn a profit, with the condition that the profit stays with the company and is used to expand the social benefits the company provides. (I often use the word “surplus” to make a clearer distinction between this kind of profit and the profits earned by conventional businesses, which go to benefit the owners.) Profit in itself is not a bad thing.

However, social business is a new category of business. It does not stipulate the end of the familiar profit-maximizing business model. Rather, it widens the market by giving a new option to consumers, employees, and entrepreneurs. It brings a new dimension to the business world and a new feeling of social awareness among business people.

To be perfectly clear: I am not asking businesspeople to give up any of their businesses. Nor am I asking them to convert their businesses into social businesses. All I am saying is this: If you are worrying about

a social problem, you can make a significant contribution to resolving the problem through the mechanism of social business. It is up to you to decide whether you want to do such a thing. Nobody will raise an accusing finger at you if you choose the path of conventional business instead. But you may feel happy if you follow the social business path. I for one can testify that this is very possible!

So I have no intention of trying to coerce anyone into starting or joining a social business. But I do want to explicitly define social business as excluding the pursuit of profit or the payment of dividends to owners. There are three main reasons why this is important.

First, there is the moral argument. I believe it's immoral to make a profit—and especially to pursue the usual business goal of maximum profit—from the poor. In effect, this is benefiting from the suffering of our fellow human beings. It seems to me that common human decency forbids such a thing.

This is not merely a theoretical argument. The issue is a very real one within the microcredit community. Over the past twenty years, as the power of the Grameen Bank model of microcredit has become widely recognized, organizations around the world have begun offering small loans to poor people.

Many of these organizations follow closely the methods that Grameen Bank pioneered—including charging the lowest possible interest rates on loans and giving borrowers the opportunity to become owners of the bank. (At Grameen Bank, our highest interest rate is 20 percent, and many types of loans, including student loans and home mortgages, are assessed at significantly lower rates.)

However, some for-profit companies in the microcredit world have become very financially successful by charging much higher interest rates, sometimes in excess of 80 percent or even 100 percent per year. They defend these rates by saying that lending to the poor is very expensive. It's true that it costs more to manage small loans to poor people than conventional loans. But interest rates should not go too far beyond the sum of the cost of funds and the delivery cost.

I have spoken out against these excessive charges, which violate the spirit in which microcredit was originally created—the spirit of serving the poor. Replacing the traditional exploitative village money-lender with a new form of exploitation was not what I had in mind when I founded Grameen Bank.

When businesspeople ask me about the profits to be made in serving the poorest people in the world, I sometimes reply, “I have no quarrel with the pursuit of profit. But first let’s give the poor people the help they need to escape from poverty. Once they have become middle class, then I urge you to sell them all the goods and services you can—and make a handsome profit doing so! But wait until they are no longer poor before you exploit them. That is the only right thing to do.”

My second argument for defining social business as strictly avoiding the pursuit of profit is a pragmatic one. In times of stress, profit will always trump the other “bottom lines.”

When you mix profit and social benefit, and say that your company will pursue *both* goals, you are making life complicated for the CEO. His thinking process gets clouded. He does not see clearly. In a particular situation where profit and social benefit need to be balanced, which way should the scales be tipped? What if it is possible to increase profit greatly by cutting social benefits just a little—is that all right? How should one judge? What about in times of economic stress, like a recession—is it all right to eliminate social benefits altogether in hopes of helping the company to survive? Why or why not? The idea of a “mixed” company offers no clear guidance on questions like these.

In practice, profit tends to win out in struggles of this kind. Most often the CEO will lean—perhaps unconsciously—in favor of profit, and exaggerate the social benefits being created. And if the CEO is a little unclear about the *real* priority, we can imagine that the middle managers and line employees will be even more uncertain. Over time, the social goals will gradually fade in importance, while the need to

make money becomes more and more deeply ingrained in the company's culture.

Here is a small example. In the United States, many poor people rely on local food banks to stave off hunger. These food banks, in turn, rely on donations from individuals as well as companies to keep their shelves stocked with foods that can be donated to hungry families.

In recent years, many food banks have been supported by grocery stores that donate outdated, dented, or mislabeled packages of food that they can't sell. Hungry people are happy to receive these "unsellable" items, and the grocers get the benefit of being good community members. It's a fine example of how corporate social responsibility is supposed to work.

In the fall of 2009, however, many food banks in the United States reported a shortfall in donations. One reason is that a new business has emerged in which middlemen buy "unsellable" merchandise from grocers for 30 or 40 cents on the dollar. These middlemen, in turn, sell the goods to low-price stores, which sell them to consumers at a steep discount from the usual price. It's a new source of profits to the grocers—but it means that the once-unsellable food is no longer available to be donated to the food banks.

I can't really blame the grocers for taking advantage of this new avenue of business. Their job is to maximize profit in any way they can. But this example illustrates the danger in leaving the needs of the poor to be served through the generosity of profit-maximizing companies. When profit and human needs conflict, profit generally wins out—which means that people lose.

Social business gives a clear, unambiguous mandate to management. There is no balancing act involved. Every decision the company makes can be measured against a single yardstick: What will enable us to provide the greatest possible benefit to society? This doesn't mean that the decisions are always easy—creative problem-solving is just as difficult in social business as in profit-maximizing business. But at least

the manager isn't forced to juggle two sets of mutually contradictory objectives.

Third is the systemic argument. It is necessary to create social business as a clearly defined alternative, separate from the worlds of business and charity, in order to change mindsets, reshape economic structures, and encourage new forms of thinking.

For many people, the biggest challenge seems to be getting over the hurdle of the no-profit rule itself. "Can't we take a *small* profit?" I am sometimes asked. It seems as though the idea of profit is like a familiar crutch that businesspeople are afraid to throw away.

Trust me, it can be done! If you can agree to take a "small" profit (however that is defined), you can also persuade yourself to take zero profit. Once you get there, you find yourself in a new world, seeing and doing things in a new way.

Consider this analogy: Suppose you are trying to quit smoking. Would it be helpful or the opposite to allow yourself to take "just one small puff"? The answer is simple—"a little bit" of backsliding destroys the whole attitude. In the holy month of Ramadan, Muslims are not allowed to eat or drink until after sunset. Why not take a small snack, or even a sip of water, during the day? It would destroy the strength of the mental commitment. In the same way, making a complete break from the for-profit attitude creates a huge and important difference for the businessperson who really wants to commit himself or herself to social change.

Social business is about totally delinking from the old framework of business—not accommodating new objectives within the existing framework. Until you make this total delinking from personal financial gain, you'll never discover the power of real social business.

Let's be very honest: The profit motive is extremely powerful. Once it gets its nose under the edge of the tent, it soon takes over the entire dwelling space.

This is the problem with traditional capitalism, which is such a creative and effective force for good in so many ways. Capitalism has cre-

ated poverty by focusing exclusively on profit. It built a fairy tale of prosperity for all—a dream that was doomed never to come true. That's why many European countries decided to empower their governments to take care of social needs, such as poverty, unemployment, education, and healthcare. They were smart enough to figure out the inability of traditional capitalism to solve these problems.

In the developing world, however, government lacks the managerial ability and material resources to create the kind of welfare state Europeans enjoy. In some other countries, such as the United States, cultural and political norms prevent government from addressing social problems. For these and other reasons, a new mechanism is needed. Social business can be that mechanism—provided it is kept completely free from the complication of profit-seeking. Being in social business is like being in a no-smoking zone—even a tiny little puff spoils the whole concept.

The Origin of the Social Business Idea

The origin of the idea of social business was really quite simple: Whenever I wanted to deal with a social or economic problem, I tried to solve the problem by creating a business around it. Over time I became convinced that it is an excellent way to address social and economic problems, but one that is missing in the framework of economic theory. I strongly feel that it should be included. This missing piece in the theoretical framework is what I call social business.

It all started because my work with Grameen Bank brought me into contact with lots of poor people, many of whom had problems that went beyond a simple lack of credit. For example, consider the Sixteen Decisions—the set of commitments that we ask each Grameen Bank borrower to make in order to strengthen herself, her family, and her potential for growth. The Sixteen Decisions were developed in the early years of Grameen Bank and finalized in 1984. Since then, they have remained an integral part of Grameen Bank's business approach.

What's important to notice is that the Sixteen Decisions are not about banking. For example, Decision Four states, "We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus." This decision became part of the Grameen program because we noticed that many of the families we served suffered from conditions such as night blindness due to vitamin A deficiency. This was a problem that was within their power to solve—so why not solve it?

Similarly, Decision Nine says, "We shall build and use pit latrines." Most Grameen Bank borrowers live in communities without modern sanitary systems. A pit latrine is a simple, practical way of drastically reducing the incidence of diseases spread by contact with human waste. All in all, nine of the sixteen decisions are related to health: safe housing, cleanliness, safe drinking water, family planning, and so on.

This is how the Grameen organizations got involved in social issues beyond simply providing financial services—and how we began to think about creating programs to improve every element in the lives of poor families.

Around each problem we identified, we created separate programs. And then, over time, we created company after company, each one dedicated to addressing a different social problem we'd observed through our interactions with the poor people of Bangladesh.

A complete description of all the Grameen companies would run for many pages. Here I'll offer just a brief explanation of some of the most important examples. (If you are curious, you can learn more about the Grameen family of companies in *Creating a World Without Poverty*.)

- *Grameen Telecom* and *Grameen Phone* have made modern telecommunications available to people throughout Bangladesh, with enormous economic and social benefits. Grameen Phone, a mobile phone company, was launched in 1996 and quickly expanded its network coverage to cover the whole country. By the middle of 2009, Grameen Phone had become the largest tax-pay-

ing company in Bangladesh, with over 25 million subscribers. Grameen Bank would provide a loan to a Grameen borrower to buy a cell phone and become the telephone lady of the village by selling telephone service, one call at a time, to those without phones of their own. More than 400,000 telephone ladies were created through this program.

- *Grameen Shakti (Grameen Energy, 1995)* has become the fastest growing solar home system company in the world. It sells 14,000 solar home systems per month to the villagers in Bangladesh. By the end of 2010 it will have half a million solar home systems in operation in these villages. It will also have half a million improved cooking stoves and 50,000 bio-gas plants in operation.
- *Grameen Kalyan (Grameen Wellbeing, 1997)* exists to provide good-quality, affordable healthcare for Grameen Bank borrowers and other villagers. It operates fifty-four health clinics and offers a health insurance program providing basic healthcare to families for the equivalent of around \$2 per year per family. We are now in the process of building up a nationwide healthcare system through a series of social businesses specializing in providing healthcare.
- *Grameen Fisheries and Livestock Foundation* was launched in 1986 to administer nearly 1,000 fish ponds in northern and western Bangladesh that had become moribund under poor management by a government agency. By the end of 2009, we had organized over 3,000 poor people into groups who produce 2,000 tons of fish per year, work to maintain the ponds, and receive nearly half of the produce in exchange for a share of the gross income. In 2002, a livestock program was added, providing training, vaccination, veterinary care, and other support services to help poor women become dairy farmers and assist others in improving and expanding existing dairy operations.
- *Grameen Shiksha (Grameen Education)* was created in 1997 to provide education to the children of our borrowers, including

preschool classes held at Grameen Bank centers. In 2003, it was expanded to include a Scholarship Management Program, which created an endowment fund for generating scholarships for poor students. By 2009, it had accumulated enough in the endowment fund to provide scholarships to 2,500 poor students. It continues to expand the endowment to finance more and more scholarships each year.

- *Grameen Uddog* (1993) and *Grameen Shamogree* (1996) are textile companies that we created to revive and modernize the traditional Bangladeshi handloom industry of manufacturing beautiful cotton fabrics and garments. Grameen Uddog (Grameen Enterprise) helped local weavers bring to the international markets a new, uniform line of fabrics under the brand name of Grameen Check. Grameen Shamogree (Grameen Products) focuses on local sales of Grameen Check garments.

Each of these Grameen businesses was created with its own business plan, organizational form, mission statement, and financial structure. Each was refined, improved, and modified on the basis of growing experience as to what worked and what didn't. And each new business benefited from the insights generated by the experiences with the ones that came before.

Eventually I looked back at what we had accomplished and realized that the Grameen family of businesses was different from traditional businesses. Conventional companies exist to make money; these exist to solve social problems while using business techniques and models. In time, I gave this new form of business a precise definition and a name: social business. Most of the businesses I had already created did not fit the definition exactly, so I started creating new businesses to fit the definition I'd developed. I elaborated my ideas about it in *Creating a World Without Poverty*. Many people responded enthusiastically, and that is how social business came to be a rapidly growing social and economic movement.

I often speak about the potential of social business when discussing my dream of a world in which poverty no longer exists. Perhaps because of this ambitious context, I am often asked, “How long will it take for this new movement to make an impact on global society?”

I honestly don’t know how long it will take for humankind to wipe out the scourge of poverty (although I firmly believe it can happen much sooner than most people assume—say within the period of 2030 to 2050). But for those who are considering becoming involved in social business, *you don’t have to wait*. You can see the impact right away—not on the whole of society, but on a portion of it.

I urge anyone who has an idea for a social business to start work on it as soon as possible. Even if it improves life for only five people—by lifting them out of poverty, providing them with a home, or bringing them affordable healthcare—it is worth undertaking. It’s not necessary to wait to see the impact on millions of people. “Millions” is a big number. But if your work has a positive impact on five or ten people, you have invented a seed. Now you can plant it a million times.

Remember, that’s how Grameen Bank got started—with loans totaling \$27. It never crossed my mind to ask, “Will this solve the problems of 50 million poor people in Bangladesh?” I was simply asking myself, “Can I do something to help the villagers of Jobra?” When I solved the problem of a few people, I felt encouraged. I realized that all I had to do was to keep on repeating it. As a result, microcredit became a global phenomenon. If you know how to lend money to five people, you have learned how to do it for five thousand people—or five hundred million.

Social Business and Government

Sometimes people ask me whether social business is somehow akin to socialism or communism. Having grown accustomed to many years of two-way rivalry between capitalism on one side and communism on

the other, they may assume that anyone who notices flaws in the theory and practice of capitalism must somehow be allied with the socialists.

In socialism and communism, the state (meaning the government) controls the economy. Major portions of the economy—or, in some systems, the whole economy—are kept under the command of government bureaucrats or politicians. Economic decisions are made based on political considerations. There is virtually no competition among business enterprises. In time, efficiency and innovation tend to disappear.

Social business offers an *option* to investors. It is not forced on anybody. It operates in an open economy with free choice. All players in the marketplace are welcome to create their own social businesses—businesses, governments, individuals, foundations, or any other social or economic entity. Nobody is excluded. Social business helps citizens to undertake activities which traditionally were considered the responsibilities of the government. As a result, government's burden is lightened, its efforts complemented by those of civil society. Governments can collaborate with social businesses run by civil society and businesses, since social businesses are not run by profit-takers, and at the same time governments can create their own social businesses.

The existence of social business means that businesses, civil society, and individual people now have access to a business format that they can use to tackle major social problems. In a society where social business is a vibrant economic force, people will no longer have to wait for the government to address such issues as poverty, hunger, homelessness, and diseases because they themselves can find ways to address them by forming their own enterprises, first on a small scale and eventually on a large scale.

Furthermore, social business enhances competition and freedom of choice by giving people more choices of goods and services. When the social business sector flourishes alongside traditional profit-maximizing companies, consumers will have more sources to choose from. At the same time, workers and managers will have more career

options. Social business emphasizes bottom-up growth and experimentation by thousands or millions of individuals who are free to create any kind of organization they want to pursue their choice of personal and social goals.

Social business recognizes that the responsibility for solving a society's problems is shared between the government and the citizens. What's more, it recognizes the abilities individuals have that government does not. Smart, talented, creative individuals can produce innovations that government is rarely capable of developing. And they do this without imposing any economic burden on anybody. Government uses taxpayer money in its attempts to solve social problems, and therefore it is limited by its resource base. Social business, by contrast, can be expanded indefinitely by raising investment money from every imaginable source.

In theory, government should represent all the people and therefore should bear the chief responsibility for addressing social problems that create human suffering. In some fortunate countries, this happens to a greater or lesser extent. But in practice, governments often become captive to special interests, self-serving political parties, and corrupt individuals. Hence the need for social business. If governments had already solved the world's most pressing problems, we would not need social business. But throughout the world, in poor countries and rich countries alike, social problems are plaguing humankind—welfare dependency, unemployment, crime, lack of housing and healthcare, environmental degradation, obesity, chronic disease . . . the list goes on and on.

Of course, those of us who advocate social business don't have blueprints for solving all these problems, nor do we claim to. But we do know that government efforts have fallen short and that a new approach is necessary. In many cases, social business offers a promising alternative to failed government programs.

Think about the government programs in your own community or country that have led to disappointing results. They might include

public schools, hospital systems, transit companies, water and sanitation services, energy utilities, airports and seaports, highway networks, and other similar institutions. Until now, the only alternative to government control has been the concept of “privatization”—which all too often simply means handing over public property to well-connected individuals who then exploit their new holdings for private gain.

Instead, why not experiment with making some of these government operations into social businesses, with the explicit mission of serving the needs of the people? This could be a way of combining the creativity and energy of business with the avowed social purpose of government, producing shared benefits that neither sector has produced before.

Social Business as a New Form of Capitalism

To this point, I’ve been emphasizing the differences between social business and traditional profit-maximizing business. But the similarities are just as important.

Look at a couple of the first social businesses we’ve created in Bangladesh. Grameen Danone is a yogurt company that produces, markets, and distributes its products much the same as any for-profit yogurt company. Grameen Veolia Water treats surface water for contaminants and then pipes it to where it is needed, much like the water systems that Veolia Water and other companies operate around the world. In these ways, these two social businesses are very much like other companies.

Of course, these companies have some unique qualities as well. The yogurt produced by Grameen Danone is fortified for nutritional purposes, which creates a challenge: how to mask the taste of the vitamins and minerals so that youngsters will like and eat the product. In this case, meeting the social need requires a product formulation solution—using business creativity to solve a health-related challenge.

Grameen Veolia Water is wrestling with the problem of convincing rural villagers to spend some of their sparse family income on drinking water, a product they are accustomed to getting for free. Again, the healthcare problem requires a smart business solution—in this case, one that is marketing oriented.

I'll provide more details about the challenges these two companies face later in this book. But already you can see that there is a pattern here. The social businesses operate within the same capitalist system as conventional businesses. Like profit-maximizing companies, they must find ways to sell their products that will cover all their costs and perhaps generate enough money to fund expansion. They must respond effectively to market challenges, price their offerings so that the target audience of poor people can afford them, and, when possible, take advantage of opportunities to generate additional income through sales at higher prices to more affluent customers. Like other types of businesses, a social business can grow or shrink, and it can expect to face many of the same kinds of problems: financing, talent recruitment, management, expansion, and so on.

In other words, social businesses are subject to many of the same market signals, stresses, and challenges as profit-making businesses. However, a social business has one advantage. It is less exposed to downside risk in times when markets fluctuate, because the future of the business is not tied to its stock price. Since social business investors are not seeking personal gain, they will be more patient in waiting for results and less likely to abandon their ownership stake because of a few days or weeks of disappointing performance. This should make it easier for social businesses to develop sound long-term plans for achieving their objectives.

Above all, social business represents a new way for human beings to express their entrepreneurial spirit.

An entrepreneur is a risk-taker, a person driven by the burning desire to put his business idea into action. He is ready to tackle difficulties, to experiment boldly, to work long hours, and to experience

personal setbacks and disappointments without becoming discouraged. He is not satisfied until his project is implemented successfully, producing the desired results—either financial reward (in the case of a profit-maximizing business) or social improvement (in the case of a social business).

My sense is that the special brand of entrepreneurship demanded by social business is quite similar to that required by a for-profit company. I'm sure it would be helpful to have experience from the world of conventional business, provided one knows how to adapt this experience for social business purposes. A business education, such as an MBA degree, may be useful if the person learns how to apply the learning to social business success. If he does not, the traditional business training may become an obstacle. The most appropriate thing would be to earn a "Social MBA" degree, a new form of education that I hope will soon be offered. More important are the personal qualities that mark the true entrepreneur. To be successful in social business, you need good practical business sense, a willingness to work hard, team-building capacity, the ability to connect with people whose collaboration you need, the ability to judge the results of your actions, and the honesty to admit when you've made a mistake and need to start over.

It is obvious that if you bring extensive background or knowledge from traditional business, you'll need to be willing to reorient yourself. In the world of social business, all your calculations will have a different purpose. You'll still be eager to find ways of reducing costs—but not by cutting the pay or benefits you offer to the poor people who may make up your workforce. You'll still look for smart ways to segment your customer base—but you won't want to use your market power to extract value from one set of people to enrich another. You'll still be trying to make your product or service as affordable as possible—but not if it means cutting corners on quality and thereby reducing the benefits you deliver to your customers. All of the business savvy you've developed in conventional

business will be very useful, but the goals and values you'll pursue will be different.

Entrepreneurship is an integral part of human nature. Social business offers a new and exciting way of expressing it—not only for those people who may not feel comfortable with the restricted, one-track pursuit of profit that marks conventional business, but also for those who are quite comfortable in the profit-making world. Nobody is excluded from social business. Everybody is welcome to find the roles that work best for them—as investors, executives, creative advisers, promoters, marketers, managers, suppliers, producers, service agents, or whatever. The important thing is to get involved and to find your own way of making a positive difference in the world.

What Social Business Offers You

At this point, you may be starting to wonder, “What does the social business concept mean for me personally?” I hope you are—because one purpose of this book is to help people see that social business can be a wonderful way of enriching our own life experiences.

The motivation for starting or joining a social business is simple. It begins with the idealism and hope that are deeply ingrained in all human beings.

If you have ever found yourself thinking, “I don't like the way things are around me; it's painful to live in a world where hunger, poverty, disease, illiteracy, and unemployment afflict so many people; I want to see these terrible things disappear,” then social business may be part of your life's calling.

Social business also provides an outlet for the creativity that millions of people harbor within themselves. “Creativity” doesn't have to mean something grand. It can be as simple as noticing a local problem and thinking, “I wonder whether anyone has ever tried to solve the problem by doing *this*”—and then trying it. A small local solution can become the seed of a global solution.

But even creativity on this modest scale is not a prerequisite. If you cannot develop a seed, you can pick up an existing seed and plant it in a new location. Social business offers many options. I like that.

Social business also offers an opportunity for individual renewal. Millions of people in every walk of life dream about change, but somehow never manage to experience it. Many of us feel trapped in “secure” lives that never leave the treadmill of routine work and unthinking consumption. At the same time, we wish we could escape into a different way of life where we can leave our signatures on this planet and discover the endless talents buried within us. Social business is a new way of framing our existence that offers the opportunity to redesign our lives even as we improve the planet we inhabit.

Social business, I’ve found, is a great learning process. Take the plunge and you quickly discover you are acting and thinking in ways you never did before. New challenges arise that force you to exercise intellectual and emotional muscles that have long gone unused. Past experiences that you’d almost forgotten suddenly become relevant and useful. You are exploring a new world that was totally unknown to you. Thanks to the “social business glasses” you now wear, you see things you never saw before. Slowly you move toward becoming a multidimensional person, rather than a robotic being driven solely by profit.

Social business is exciting and fun. For many people, the chief obstacle to making the commitment to social business is attitudinal. It’s easy to lapse back into apathy, pessimism, and despair.

Many people argue that there is no point in trying to change the world, whether through social business or any other means—that the world has always been the same, and that there is no way to change human nature.

This is simply false. Today’s world is not the same as the world in which our ancestors lived. We don’t have plagues. We don’t have slavery. We don’t have monarchy. We don’t have apartheid. We have women voting, free markets flourishing in once-closed societies, peo-

ple around the world demanding human rights—even a black president in the United States. Change *does* happen, and that change is shaped by us.

As for human nature, my belief is that it is fundamentally good. That is why religion, good governance, social values, arts, culture, and charity have flourished throughout history, even in the face of tyranny and selfishness. The sprouts of justice and mercy are always struggling to grow through the cracks. If we nurture and nourish them, we can make this planet into the garden all humans dream of inhabiting.

An Idea Whose Time Has Come

We live in exciting times—an era when the world is ripe for the kind of amazing, positive change that social business can create.

I've mentioned the global economic crisis that began in 2008, exposing the weaknesses in traditional capitalist theory. But a crisis is also an opportunity for reform. Today's crisis gives us an opportunity to reshape economic theory so it reflects the multifaceted reality of human nature.

Furthermore, the current crisis—or, more accurately, the intertwined economic, environmental, agricultural, energy, health, and social crises—provides an opportunity for bold experimentation with new solutions. Social business has a better chance of changing the world than some past ideas because the concept is so powerful yet so flexible and accommodating. Social business involves no compulsion on anybody. It widens the scope of free choice rather than narrowing it down. It fits neatly into the capitalist system, offering the hope of bringing millions of new customers into the marketplace. Rather than threatening the existing structure of business, it proposes a way to revitalize it.

What's more, social business helps the governments share their burden of responsibilities for social change with the civil society. It also helps governments avoid creating or widening any political divides by

undertaking a particular social action for the whole nation. Now governments can encourage social businesses to flourish in as many directions as they want, so that people can figure out which action is preferable to them without creating political crises. It is up to individuals to conceive, design, and create social businesses. Then the free market will decide which social businesses succeed and which ones fail. A social business concept can be developed on a trial-and-error basis and implemented slowly or quickly. It can be dormant for a while but remain alive, waiting for the right moment to shower its benefits on society. Like life itself, social business is capable of endless change, development, and growth.

Like any other idea, that of social business is subject to being misused and perverted. A few powerful people will look for ways to distort the concept and twist it for their own benefit—just as some misguided people have applied the term “microcredit” to describe companies that are really just loan sharks in disguise. Well-intentioned people will need to be on guard against those who would abuse the good name of social business.

But that’s true for any basic concept. The ultimate fate of social business will depend on whether it has touched any special chord in people’s hearts. If social business becomes part of people’s dream of a better world, then nobody can stop it. It will flourish, even under adverse circumstances.

The time will come when social business is not only an accepted part of the capitalist system but is especially prized for its creative and idealistic approach to the world. Parents who today encourage their children to earn pocket money by delivering newspapers or setting up a lemonade stand on a summer day will urge them to start small social businesses aimed at solving neighborhood problems—planting trees, caring for homeless animals, running errands for elderly neighbors. Reality TV shows that today focus on opportunities in show business will challenge contestants to develop innovative new social business

ideas, with a top prize of generous funding for the best idea so that it can quickly spread around the country and the world.

Personally, I see no upper limit to the role of social business in the global economy. In the years to come, social business may become a significant proportion of the business world as a whole. Theoretically, a whole economy could be made up of social businesses. If that happens, it will be as a result of people's free choices, not because of coercion. The ultimate role of social business will depend on what all the people want. Is there an optimal ratio between the two kinds of businesses—for individuals, for society, for the world? And how far can social business take us down the path toward a more perfect world, where every human being has the opportunity to live a life of dignity, freedom, and peace?

During the lifetimes of our children and our grandchildren, humankind will engage in an exciting experiment that will reveal the answers to questions like these. As the rest of this book will show, the experiment is already under way.